



ZdravReform
ЗдравРепорм

TRIP REPORT NO. CAR/KAZ-8

**TRAINING IN THE FUNDAMENTALS
OF MEDICAL INSURANCE
PRESENTED TO REPRESENTATIVES
OF THE EMERGING
HEALTH INSURANCE INDUSTRY
IN KAZAKHSTAN AND KYRGYZSTAN**

**November 7–17, 1994
Chimkent, Kazakhstan**

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Submitted by the ZdravReform Program to
AID/ENI/HR/HP

AID Contract No. CCN-0004-C-00-4023-00
Managed by Abt Associates Inc.
with offices in: Bethesda, Maryland, U.S.A.
Moscow, Russia; Almaty, Kazakhstan; Kiev, Ukraine

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ABOUT THE AUTHOR

Leta Finch is the Director of the Vermont Insurance Institute (VII) at Champlain College where she oversees the development and planning of education [programs to meet the needs of undergraduates and professionals in the insurance industry. Prior to joining VII, Ms. Finch served eight years as Director of Risk Management at the University of Vermont. She is past President of the University Risk Management and Insurance Association and has served on the boards of directors of UC Mutual Insurance Company, United Educators Insurance Risk Retention Group, inc. and Planned Parenthood Federation of America's Policy Holders Council. Her previous insurance experience includes work the Hartford Group in Washington, D>C. and Alexander & Alexander, Inc., in Philadelphia. She received her undergraduate degree from the University of Vermont.

ACKNOWLEDGMENTS

The Vermont Insurance Institute would like to express thanks and gratitude to Dean Millslagle for his undivided attention, care, and concern for the faculty team and for providing two excellent professional interpreters, Anya and Antonina, who worked diligently and effectively during several extremely difficult technical sessions. Further thanks and gratitude go to Rafael, Naila, Nuripa, and Bota of the *ZdravReform* Program/Almaty office, Igor and Julia of the Chimkent office, and all the drivers.

Leta Finch, in particular, appreciated the time Michael Borowitz set aside to meet with her.

EXECUTIVE SUMMARY

Kazakhstan and Kyrgyzstan are undergoing political and economic transitions as a result of the breakup of the former Soviet Union. After a century of health care services provided by the Soviet central budget, which based its reimbursement on length of hospital stays, there is great need to assist these countries in health care reform efforts. These countries are interested in moving from a system based on curative care provided by specialists in hospitals to one based on preventive care provided by general practitioners in an outpatient setting. Therefore, there is tremendous need for training and education on a range of topics including mandatory and voluntary financing schemes, such as private insurance.

In Chimkent, Kazakhstan in November 1994, The Vermont Insurance Institute (VII) presented an introductory seminar on the fundamentals of medical insurance to representatives of the emerging medical insurance industry in Kazakhstan and Kyrgyzstan. The following persons served as faculty at the seminar: Leta C. Finch, Director of the Institute; Jeanne Keller, President of the Vermont Employers Health Alliance; Ronald Morris, Corporate Director of Sales at Blue Cross/Blue Shield Vermont; and Kerry Reynolds, Senior Underwriting Analyst at Sedgwick James. Subjects included an introduction to insurance, public financing schemes, coverage and plan design, and marketing insurance products.

VII's faculty team introduced participants to

- Basic insurance knowledge,
- A methodology to prioritize the degree of services to be included in a voluntary insurance plan,
- Voluntary insurance market and pricing mechanisms, and
- Marketing strategies for voluntary insurance products.

Throughout the 10-day seminar, faculty engaged participants through interactive participation, break-out sessions, and individual exercises and presentations. The seminar provided participants with much-needed information that will help them make more informed and knowledgeable decisions as they move forward with health care reforms.

The seminar was successful, given that, over the course of the seminar, participants asked increasingly sophisticated questions and had increasingly sophisticated answers.

Recommendations include consideration of participant requests for follow-up activities, including providing assistance to the Kazakhstan Supreme Soviet's Committee on Health in 1) drafting

insurance legislation and compliance procedures, 2) defining the core services to be included in the MHI Fund, and 3) writing guidelines on how to price those services. Another request for follow-up involvement included assisting the Kazakhstani and Kyrgyzstani Institutes of New Technologies and Insurance with curriculum development and training materials design and production.

Chapter 1

BACKGROUND AND SEMINAR DESCRIPTION

The need for medical insurance training in Central Asia is the result of the 1988 dissolution of the former Soviet Union's sole insurer, the State Insurance Agency of the USSR. Since that time, few of the New Independent States (NIS) have been successful in enacting well-defined and enforceable insurance laws. Kazakhstan and Kyrgyzstan are no exception. However, the Russian Federation has issued criteria for a gradual transition to compulsory medical insurance to its territories, and many countries in the NIS have chosen to adopt the criteria. The criteria includes:

- A basic compulsory (mandatory) medical insurance program
- Licensed insurers capable of providing voluntary medical insurance programs
- Established rates of payment for medical services guaranteed by territorial medical insurance programs
- Accreditation and licensing of medical institutions that guarantee health care within the framework of the mandatory and voluntary insurance programs.

Despite the adoption of these criteria issued by the Russian Federation, progress in Kazakhstan and Kyrgyzstan has been slow due to:

- Poorly developed public insurance cultures
- Lack of understanding of and funding schemes for insurance
- Legal restrictions preventing participation of foreign insurance companies
- Inadequate insurance legislation.

In the context of the above problems, the *ZdravReform* Program (ZRP) planned a technical assistance activity to provide an understanding of the purpose, structure, financing, staffing, operations, and management of health insurance systems with the intent to enable the participants to integrate public and private, mandatory and voluntary, health insurance programs into the health system with which they are working. (See Annex A—Task Authorization and Statement of Work.)

The Vermont Insurance Institute, a ZRP subcontractor, gave a seminar on the fundamentals of medical insurance to 40 Kazakhstani and Kyrgyzstani health care providers, representatives of government, and faculty from the Institutes of New Technology and Insurance. The seminar

participants included key leadership of the emerging medical insurance industry in Kazakhstan and Kyrgyzstan. (See Annex B—List of Participants.)

VII developed curriculum consisting of an introduction to

- Principles of insurance and risk management
- Coverage and plan design
- Public and mandatory payment schemes
- Underwriting and pricing
- Insurance products marketing.

See Annex C for the topical outlines for these subjects.

The seminar, which convened at 9:00 a.m. and ended at 4:30 p.m. daily except Sunday, was held November 7–17, 1994 at the Construction Workers's Sanatorium in Chimkent, Kazakhstan. The VII faculty team employed modern teaching methods including lectures, interactive exchange of information between the participants, question and answer breaks as needed, and break-out sessions for special projects, and individual and group exercises.

Day 1 began with opening ceremonies and formal introductions. Then, the VII's faculty team asked participants to explain the current status of their countries' health insurance law, health care delivery systems and financing schemes, including mandatory, voluntary, and outside of the law. This inquiry helped the faculty prepare for the most relevant presentations possible.

On Day 2, the faculty team discussed the fundamentals of insurance, providing the participants with a common body of knowledge and understanding of usual and customary insurance terms that became the basis of discussions throughout the rest of the training.

On Day 3, the participants determined what services would be included in the Mandatory Health Insurance (MHI) Fund and what services would be left to the voluntary insurance industry. During this exercise, the participants determined that virtually all services would continue to be covered by the MHI Fund. The only services excluded and left for the voluntary market included the following:

- Adult vision care
- Private duty nursing
- Hospital inpatient upgrades
- Outpatient prescription drugs
- Routine physical exams
- Non-recuperative sanatoria room/board and therapies

- Adult orthodontics
- Routine circumcision
- Transsexual surgery
- Voluntary abortion
- Reproductive sterilizations
- Non-therapeutic massage
- Acupuncture
- Cosmetic surgery
- Birthing care.

Days 4 and 5 consisted break-out group exercises in developing a voluntary insurance product. Two self-selected break-out groups, one of Kyrgyzstani and the other Kazakhstani, were asked to select any of the services not otherwise included in their list of MHI services. After instruction on the various elements of a medical insurance contract and issues to consider such as deductibles, copayments, and co-insurance, the Kazakhstanis developed an adult dental policy and the Kyrgyzstani developed a voluntary abortion policy.

Both break-out groups reported their policies to the entire group.

On Day 6, the pricing of public and mandatory health care and different reimbursement methodologies, including financial incentives and behavioral impacts, were discussed.

On days 7 and 8, actuarial science and underwriting techniques were discussed. Demographic data were collected from the participants on their histories of and anticipated needs for receiving adult dental services, and the class priced the voluntary policy drafted by the Kazakhstani group. The abortion policy was not priced because collecting information needed from the participants was considered to be inappropriate.

The initial outcome of this exercise was that, based on contract provisions and collected data, the policy would not have been affordable. Kerry Reynolds, the discussion leader, then discussed in detail the reasons the policy was overpriced and reworked various components to illustrate how to make the policy more attractive to the consumer.

On day 9, voluntary insurance product marketing was discussed.

Day 10, the wrap-up session, provided the participants an opportunity to ask any and all remaining questions that had not been addressed. This concluded at noon and a celebratory lunch and "graduation" ceremony followed. Each participant received a Vermont Insurance Institute certificate of completion for attending the medical insurance seminar and a Vermont state lapel pin. (See Annex D—Certificate of Completion)

Chapter 2

ACCOMPLISHMENTS

Participants gained:

- 1) A clear understanding of medical insurance fundamentals demonstrated by the increased sophistication of the questions asked over the 10-day period. The insurance policies designed and presented by the two groups also illustrated this understanding.
- 2) Exposure to a variety of teaching methods, including interactive problem solving and group project development.
- 3) A realization that the proposed MHI Fund is expensive—perhaps unaffordable—if it is to provide all of the services proposed by the group, and that a voluntary insurance system is a complex and not an easy solution to providing limited and narrowly defined services that have little general appeal.
- 4) A list of health care service options, based on the information provided, was developed and included the following:
 - Restore/maintain old system (with some out of pocket pay),
 - Establish a MHI/budget fund with defined core benefits and have remaining excluded services packaged either in a voluntary group or in a pay out of pocket plan (depending on the services), and
 - Minimize services in the MHI fund and let the current private underground delivery system safely and profitably emerge and develop into a successful PPO network.

Chapter 3

LESSONS LEARNED

As stated at the closing ceremonies of this insurance training, the success of any educational seminar is dependent upon the instructors' learning as much from the students as the students learn from the instructors. The Vermont Insurance Institute's instructors indeed learned a great deal from the participants, including:

- 1) The participants seemed to want to restore and/or maintain the budgetary financing of the old health care system as provided under Communism, and at the same time move toward a primary outpatient care system.
- 2) The participants believed that their governments' budgets will be able to pay for all the services except those they identified as services to be paid for voluntarily.
- 3) There is little interest in developing a private insurance industry because services not provided by the MHI Fund can be paid for "out of pocket" by those who wish to receive such care.
- 4) There is a thriving underground private health care delivery system that will not voluntarily surface due to high licensing fees, taxes of 90 percent on earned income, and fear of mafia extortion of health care providers.
- 5) Universal coverage and quality assurance improvements are priorities. Efficiency currently is of no concern because there is little understanding of the cost of care and little belief that there will be a future need for cost controls.
- 6) Defining which services will be provided under the MHI Fund and which will be left for the voluntary market is as difficult for the Kazakhstanis and Kyrgyzstanis as it is for Americans to determine an acceptable allocation of medical resources based on age and degree of need. However, the economic need to define MHI services in the NIS is urgent, whereas the United States can afford to continue the debate.
- 7) Second opinions are not allowed under Mandatory Health Insurance, nor is it likely that they will be allowed under voluntary plans. In the NIS, patients do not have rights. Several participants believed that second opinions imply incompetence of health care providers.
- 8) There is great concern regarding distribution of the MHI taxes to be collected from employers. The seminar participants believed that fair distribution of taxes means returning taxes collected for payment of health care services to the oblast from which they were

originally collected, not redistributing a percentage of taxes to cover the costs of health care in less affluent oblasts.

- 9) The Kazakhstan insurance law has been drafted by the Health Minister's Advisory Committee and sent to the Supreme Soviet's Health Committee. Once the Health Committee approves the law, it will be passed to all of the other committees for approval. Once approved by the Supreme Soviet, it will go to the President for adoption. The insurance law will determine both national and oblast taxation and distribution systems. There are 18 oblasts in Kazakhstan, with 177 territories consisting of 80,000 to 100,000 people. Each territory has a representative in the Supreme Soviet. Parliament consists of 177 representatives. Central budget allocations will be determined by each oblast's statistics on facilities. The national issues are determining a) the core services provided under the MHI Fund and b) the amount of money to be redistributed to each oblast for health care based in anticipated need. The Committee on Health is influenced by state/privatized industries, and enterprises; labor unions; military/security forces; small, private entrepreneurs; and farms.

State/privatized industries and enterprises, labor unions, and military/security forces are the most powerful influences on the Committee on Health and appear to have the most vested interest in assuring that the old system is restored and/or maintained.

- 10) The current focus of health care is on curative care provided by specialists through a vast hospital system. Participants expressed the desired to move to a preventive approach based on general practitioners and outpatient service delivery; however, funding is still based on hospital length of stay, which is one reason to restore and maintain the old system. There is currently no mechanism to shift the funding focus. Polyclinics are used primarily as gateways to hospital stays. Physicians must see 24 patients in a four-hour patient intake shift (12 minutes each) and a three-hour home visit shift to equal a seven-hour work day. There are 2,000 to 2,400 patients assigned to each doctor.
- 11) When conducting training seminar, *ZdravReform* teams should take 25 percent more copies of all materials than originally planned.

Chapter 4

RECOMMENDATIONS AND REQUESTS FOR ADDITIONAL TRAINING

Vermont Insurance Institute received requests for additional training and recommends the following follow-up programs:

- 1) One of the participants in the seminar was a representative of Kazakhstan's Supreme Soviet and had traveled to Chimkent from Almaty at her own expense to attend. She was so interested in the first week of the seminar that she invited another member of parliament to attend a session. During this time, both women asked to meet with Dean Millsagle of the *ZdravReform*/Almaty office and Leta Finch to discuss the need for training the Health Care Committee of Parliament prior to its taking action on the medical insurance law. In the discussions, it was determined that there is immediate need for a two- to three- week training session consisting of the following proposed curriculum:

Week 1—assistance in drafting a reasonable medical insurance law for Kazakhstan including regulations and an enforcement plan.

Week 2—definition of core benefit services to be included in the MHI Fund and assistance in pricing each of the services.

- 2) Both Kazakhstan and Kyrgyzstan have established institutes of New Technologies and Insurance similar to the one in Yaroslavl, Russia, which has worked extensively with VII. The Director of the Yaroslavl institute, Valerie Ivanov, and the Chair of their Board, Dr. Alexei Zhelezov, provided the Kazakhstani and Kyrgyzstani institutes with VII training materials and videotapes prior to the seminar. Representatives from both the Kazakhstani and Kyrgyzstani institutions attended the seminar and requested follow-up assistance with curriculum development and teaching materials. Because the Kyrgyzstani representative had to leave early, Leta Finch gave him her copy of the fundamentals of insurance text she had, and has since sent copies to the Kazakhstani institute via the ZRP/Almaty office. The representatives of these two institutions were very familiar with the work VII did with the institute in Yaroslavl.

Although the Kazakhstani and Kyrgyzstani representatives invited Leta Finch to visit their institutes, she believes it would be more advantageous for them to visit the Vermont Insurance Institute at its campus at Champlain College in Burlington, Vermont, in early June. VII has its annual meeting June 8 and is hosting a small, international meeting of

insurance institute directors on June 9 and 10. Valerie Ivanov of the Yaroslaval institute was able to attend the Vermont Insurance Institute's Annual Meeting two years ago and found it to be important and worthwhile to the advancement of his institute.

Annex C

CURRICULUM AND TOPICAL OUTLINES OF PRESENTATIONS

All topics were presented as seminars with the intent to encourage as much interaction as possible between the students and instructors for practical problem solving.

Day 1—Orientation and Roundtable Discussion, All instructors present

This was an opportunity for the students to hear about the curriculum and teaching schedule and for students and teachers to get to know one another. This was also an opportunity for the instructors to ask the students a range of information gathering questions that will lead to more effective teaching. It has been the experience of the Vermont Insurance Institute that there is a need for NIS health care professionals to thoroughly describe their delivery and financial systems. In so doing, this enables the instructors to teach from an essential point of reference and the material becomes more relevant and applicable to the students' interest.

Because of the number of students and the vast range of topics covered, it was essential that a full day be allowed for the opening orientation and roundtable discussion.

Day 2—Introduction to Insurance and Risk Management, Instructor: Leta C. Finch

This course introduced the concepts and fundamentals of risk, risk management and insurance including types of insurance, policy review and organization of an insurance underwriter and agency.

Discussion topics included:

- 1) Basic concepts in risk and insurance
- 2) The insurance mechanism
 - Basic characteristics of insurance
 - Requirements of an insurable risk
 - Benefits of insurance to society

- 3) The insurance contract
 - Principle of insurable interest
 - Principle of subrogation
 - Principle of utmost good faith
 - Requirements of an insurance contract
 - Characteristics of insurance contracts
- 4) Insurance company operations
- 5) Principles of risk management
- 6) Role of governmental oversight

Day 3—Coverage Services, Instructor: Ronald T. Morris

The first step for any insurance company is to determine the services the policy will provide and the services the policy will exclude. Exclusions are often dictated by medical care offered at the national or federal level, and those services that are not affordable, for example experimental transplants. The outcome of this seminar will be a draft policy with agreed upon wording. The draft policy will then be used and developed during each of the following seminars.

Discussion topics included:

- 1) Hospitalization. Coverage for diagnostic, planned/unplanned surgery, and emergency care, for example.
- 2) Physician care. Coverage for surgery, examinations, laboratory, X-ray, OB/GYN, for example.
- 3) All other care/major medical. For example, durable medical equipment, hospice care, home nursing, and prescription drugs.

Day 4 and 5—Plan Design, Instructor: Ronald T. Morris
Assisting: All instructors

The description of the medical plan was a consequence of the services provided as stated in the policy and defined in the earlier seminar.

Discussion topics included:

- 1) Philosophy of deductibles and co-insurance and their impact on costing
- 2) Covered services such as preventive care and wellness programs
- 3) How special services are covered, i.e., alcoholism and mental health
- 4) How to access care
- 5) How to access payment

Day 6—Obligatory Payment Schemes, Instructor: Jeanne M. Keller

This session addressed how obligatory medical care is priced, and different provider reimbursement methods including financial incentives and behavioral impacts.

Discussion items included:

- 1) A framework for analyzing obligatory financing schemes
- 2) Obligatory delivery of services versus obligatory financing of services
- 3) Sources of revenues for obligatory programs
- 4) Administration of obligatory programs
- 5) Methods of payments to providers
- 6) Economic incentives

Day 7 & 8—Private Payment Schemes, Instructor: Kerry G. Reynolds

This discussion focused on the economic issues related to private medical insurance systems, and included a summary of insurance company pricing concepts.

Discussion topics included:

- 1) Health care, medical care, medical insurance
- 2) Reasons for choosing voluntary medical insurance
- 3) Supply and demand health economics

- 4) Privately insured consumer behavior
- 5) Who pays voluntary premiums
- 6) Who bears risk of inadequate premiums
- 7) Medical data and statistics
- 8) Overview of actuarial concepts
- 9) Overview of underwriting and pool rating concepts
- 10) Operating in a hyperinflationary economy

Day 9—Marketing Health Insurance Products, Instructor: Ronald T. Morris

This course stressed marketing strategies of health insurance products, considers the issues of price, and the delivery of goods and services, and looked at ways to best orient the consumer to this mix.

Discussion topics included:

- 1) Funding mechanisms, options, and alternatives, i.e., fully insured, self insured, provider negotiations, reinsurance, and reserves
- 2) How to bill and how to pay
- 3) Selection and training of sales force
- 4) Consumer behavior and market segmentation
- 5) Advertising strategies including print, broadcast, and other media

Day 10—Roundtable Discussion, All instructors present

This was a popular event; it gave the participants a chance to meet one last time with all of the faculty present and ask any remaining questions. In this setting, the student received comprehensive responses from the faculty panel to their concerns that had not been addressed, or thought of, earlier in the week. It also helped the faculty ensure that crucial questions were addressed thoroughly. Further, it made clear what additional training was needed.

Annex D

FACULTY BIOGRAPHIES

Leta C. Finch, Director, Vermont Insurance Institute at Champlain College, Vermont. M.A. Public Administration, University of Vermont. B.A. Sociology, University of Hawaii.

As Director of the Vermont Insurance Institute at Champlain College, Ms Finch oversees its development and plans programs to meet the professional and educational needs of Vermont's insurance industry, including captive insurance companies. The Institute provides continuing education courses, undergraduate courses in the College's Business Management degree program, and serves as the host site for seminars, professional meetings and national exams for professional designations. In addition, the Institute provides programs on a national and international basis upon request. Ms. Finch is adjunct faculty in the College's Business Administration Division.

Jeanne M. Keller, President, Vermont Employers Health Alliance, Burlington, Vermont. M.S. Telecommunications, Indiana University at Bloomington. B.A. Communications, Stanford University, Stanford, California. ARM (Associate in Risk Management) Insurance Institute of America.

As president of Vermont Employers Health Alliance, Ms. Keller is responsible for research and development on health policy issues as they affect purchasers of health care. In addition, she represents purchasers of health insurance to the legislative and regulatory bodies, including the General Assembly, Department of Banking & Insurance, and the Vermont Health Authority. She has been successful in developing partnerships with other stakeholder groups for reform of the health care system including the Vermont Program for Quality Healthcare, the Vermont Health Information Consortium, and Vermont's Coalition for Comprehensive Health Reform.

Ms. Keller currently chairs the Health Policy Council and has served on Vermont's Health Information Consortium, and Health Insurance Plan Board. She currently serves on the board of the National Business Coalition on Health. She has lectured on health care reform strategies on behalf of the Vermont Insurance Institute to visiting Russians studying medical insurance.

Ronald T. Morris, Corporate Director of Sales, Blue Cross/ Blue Shield of Vermont, Inc. B.A. Psychology, Bishop's University. Full scholarship from Department of Indian Affairs. Certified Health Consultant (CHC) awarded by Purdue University and the Marketing Development Institute.

Mr. Morris is responsible for all local sales and service functions for Blue Cross/Blue Shield of Vermont. He is accountable for local field sales, telemarketing, national accounts, federal employee

programs, wellness and sales support. He has lectured and taught Marketing to all of the Vermont Insurance Institute's Russian delegations studying medical insurance.

Kerry G. Reynolds, Senior Underwriting Analyst, Sedgwick James of New England.
M.S.Ed. Mathematics, University of Southern Maine. B.A. Physics, Bowdoin College.

Mr. Reynolds is responsible for client services for large groups, particularly in the public sector, and the completion of special projects of an analytical risk management, financial, and underwriting nature. He has extensive and detailed knowledge of medical and dental plan pricing and underwriting concepts and methods, including rating, financing contracts, premium components, reserving, competitive bidding, pricing plan changes, flexible benefits, plan management, and plan solvency. Mr. Reynolds is a former instructor for pricing and underwriting health benefits for Blue Cross/Blue Shield of America and former chair of the Blue Cross/Blue Shield New England Actuarial and Underwriting Committee. In addition, he taught high school and college mathematics for 10 years. Mr. Reynolds has lectured to the Vermont Insurance Institute's Russian delegations studying medical insurance.